

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies**

**Financial Reporting Entity**

Formed in 1838, the County of Roanoke, Virginia (the "County") is a county government within the Commonwealth of Virginia. The County is a municipal corporation governed by an elected five-member board that appoints a County Administrator. There are also five elected Constitutional Officers who are independent of the Roanoke County Government by law and serve as Clerk of the Circuit Court, Commissioner of the Revenue, Commonwealth Attorney, Sheriff and Treasurer. As required by accounting principles generally accepted in the United States of America (GAAP), these basic financial statements present the County of Roanoke (the primary government) and its component unit (Roanoke County Public Schools), an entity for which the government is considered to be financially accountable. The County's component unit is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the County.

**Discretely Presented Component Unit**

Discretely presented component units are entities that are legally separate from the government, but for which the government is financially accountable, or whose relationship with the government is such that exclusion would cause the government's financial statements to be misleading or incomplete. The Roanoke County Public School Board (School Board) is responsible for elementary and secondary education within the government's jurisdiction. The members of the School Board are elected by the citizens of Roanoke County. However, the Roanoke County Public School System (School System) is fiscally dependent upon the government because the primary government's Board approves the School System budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of debt. The School System component unit is presented in a separate column to emphasize that it is legally separate from the primary government. The School System has separately issued financial statements which may be obtained by writing the Roanoke County Public School Budget and Finance Office, 5937 Cove Road, Roanoke, VA 24018 or visit their website at [www.rcs.k12.va.us](http://www.rcs.k12.va.us).

**Related Organizations**

As the custodian of public funds, the Treasurer invests all public monies held on deposit with the County. In the case of the separate agencies listed below, the County serves as fiscal agent, but is not financially accountable for their operations. Accordingly, the activities of the following organizations are presented as agency funds within the County's financial statements:

- Roanoke Valley Resource Authority
- Commonwealth Fund
- Special Welfare Fund
- Cable TV
- Industrial Development Authority
- Roanoke Valley Greenway Commission
- Virginia Recreational Facilities Authority
- Regional Fire Training Center
- Western Virginia Water Authority

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

The accompanying basic financial statements of the County have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia and GAAP as specified by the Governmental Accounting Standards Board (GASB). The following is a summary of significant accounting policies and reporting practices of the County:

GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended was implemented July 1, 2001 and represented a significant change in the financial reporting model used by state and local governments. It established new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes the following:

**Management's Discussion and Analysis**

GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

**Government-wide Financial Statements**

The reporting model includes financial statements prepared using full accrual accounting for all the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities. Accrual accounting also reports all of the revenues and cost of providing services each year, not just those received or paid in the current year or soon thereafter.

**Statement of Net Assets**

The Statement of Net Assets is designed to display the financial position of the primary government and its discretely presented component unit. Governments report all capital assets, net of accumulated depreciation, in the government-wide Statement of Net Assets and report depreciation expense in the Statement of Activities. The net assets of a government are broken down into three categories, 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

**Statement of Activities**

The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each government function. The expense of individual functions is compared to the revenues generated directly by the function.

**Reconciliation of Government-wide and Fund Financial Statements**

A summary reconciliation of the difference between the total governmental fund balances and total net assets for governmental activities as shown in the government-wide Statement of Net Assets is presented in an accompanying reconciliation to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation differences stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

A summary reconciliation of the difference between net changes in governmental fund balances and change in net assets for governmental activities as shown on the government-wide Statement of Activities is presented in a reconciliation to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation differences stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

**Budgetary comparison schedules**

Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. The County and many other governments revise their original budgets over the course of the year for a variety of reasons. The County will continue to provide budgetary comparison information in their annual reports which includes a comparison of the original budget to both the final budget and actual results.

**Basis of Presentation**

***Government-wide Financial Statements:*** The Statement of Net Assets and the Statement of Activities display information about the County as a whole, except for fiduciary funds. The government-wide statements are prepared using the economic resources measurement focus, which differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges for services, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the County. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County. The County does not allocate indirect expenses.

***Fund Financial Statements:*** Financial transactions and accounts of the County are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances and changes therein. Fund financial statements are designed to present financial information of the County at this more detailed level. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. The following is a brief description of the specific funds used by the County:

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

- **Governmental Funds** – These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. The individual governmental funds are:
  - General Fund – This fund accounts for all revenues and expenditures applicable to the general operations of the County that are not required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service and interest income. A significant part of the General Fund's revenues is used principally to finance the operations of the Roanoke County Public Schools. The General Fund is considered a major fund for reporting purposes.
  - Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and other related costs. The Debt Service Fund is considered a major fund for reporting purposes.
  - Capital Projects Fund – This fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by the proprietary fund. The Capital Projects Fund is considered a major fund for reporting purposes.
- **Proprietary Funds** – Proprietary funds are used for operations that are financed in a manner similar to a private business enterprise. The measurement focus is based on determination of operating income, changes in net assets, financial position and cash flows. Operating revenues include charges for services. Operating expenses include cost of services. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses. With respect to the enterprise fund, the County has adopted Statement 20 of the Governmental Accounting Standards Board (GASB), *Accounting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*. The County has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.
- Internal Service Funds – These funds account for employee health, dental, and workers' compensation coverage provided to other departments on a cost-reimbursement basis and they derive their funding from charges assessed to the user departments and employees. These funds are included in the governmental activities for government-wide reporting purposes. As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. The excess revenue or expenses for the fund are allocated to the appropriate functional activity.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

- **Fiduciary Funds** – Fiduciary funds are used to account for assets held by the County in a purely custodial capacity. The County's only fiduciary funds are agency funds which are custodial in nature and do not involve measurement of results of operation. Fiduciary funds are not included in the government-wide statements.

**Basis of Accounting**

The basis of accounting determines when transactions are recorded in the financial records and reported in the financial statements.

*Government-wide, Proprietary Fund, and Fiduciary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The County considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Expenditures are recorded when the related fund liability is incurred, except compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**Revenues: Exchange and Non-exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the County, available means expected to be received within thirty days of fiscal year end.

Non-exchange transactions, in which the County receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (See note 2). Revenue from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the County must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the County on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Unearned Revenue** – Unearned revenue arises when assets are recognized before revenue recognition criteria can be satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005 but which were levied to finance fiscal year 2006 operations, have been recorded as unearned revenue. Grants and entitlements received before the eligibility requirements are met are recorded as unearned revenue. In governmental fund financial statements, receivables that will not be collected within the available period have also been reported as unearned revenue.

**Cash and Cash Equivalents** – The County considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent. For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less. For purposes of the statement of cash flows, cash includes unrestricted cash and cash equivalents and restricted cash. Restricted cash equivalents are defined differently and are not considered available for operations, and therefore not considered to be cash equivalents for the statement of cash flows. Note 4 provides a detailed disclosure regarding cash equivalents and investments held by the County.

**Investments** – Cash received by the County is deposited in various bank accounts. Monies which are legally required to be maintained individually, such as trusts balances and contractor escrows, are deposited and maintained in individual segregated bank accounts. All other monies of the County are deposited in a pool of bank accounts and are used to purchase investments that are specifically allocated to the appropriate funds. Interest earned on pooled investments is accrued as earned and distributed to the General Fund and other qualifying funds utilizing a formula based on the average month end balance of cash and cash equivalents of all pooled funds. Short-term investments are stated at cost (which approximates market) and consist of repurchase agreements, commercial paper, bankers' acceptances, and U.S. government securities. Investments are stated at fair value with any net appreciation or depreciation in fair value reflected as investment income in the operating statement. Investments consist of long-term investments in U.S. government securities and corporate notes. Each fund whose monies are deposited in the pooled accounts has an equity interest therein. Interest earned is allocated based on average monthly balance. Note 4 provides a detailed disclosure regarding cash equivalents and investments held by the County.

The County requires all banking institutions holding its public funds to protect such funds in accordance with the Virginia Security for Public Deposits Act (Act). The Act established a single body of law applicable to the pledge of security as collateral for public funds on deposit in banking institutions so that the procedures for securing public deposits is uniform throughout the Commonwealth. Under the Act, banks holding public deposits must pledge certain levels of collateral and make monthly filings with the State Treasury Board.

**Receivables** – Local taxes and governmental fund accounts receivable are recorded in the County's accounts as both receivables and unearned revenue when billed. Property taxes paid in advance are recorded as unearned revenue until such time as the taxes become due.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Inventories** – Inventories consist of various consumable supplies and are maintained on a perpetual basis with periodic verification based on physical count. All inventories are valued at cost using the first-in first-out method for the government-wide statements. The cost of the consumable supplies is recorded as expenditures when consumed in the general fund. Reported inventories in the governmental funds are equally offset by a reservation of fund balance.

**Capital Assets** – Capital outlays are recorded as expenditures in the governmental funds and as assets in the government-wide financial statements to the extent the County's capitalization threshold is met. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of at least three years. Major additions, including those that significantly prolong a capital asset's economic life or expand usefulness, are capitalized. Normal repairs that merely maintain the asset in its present condition are recorded as expenditures and are not capitalized. Depreciation expense for capital assets is identified with a function, whenever possible, and is included as a direct expense.

All capital assets are capitalized at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the time received. Upon the sale or retirement of a capital asset, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	40-50 years
Building Improvements	10-25 years
Furniture, Fixtures, and Equipment	3-25 years

**Pension Plan** – The County's policy is to fund pension costs, which include both normal costs and amortization of prior service costs, on an annual basis in accordance with actuarially determined amounts.

**Temporary Literary Loan Proceeds** – The County receives draw downs from the Commonwealth of Virginia from approved Literary Loans. These loans are accounted for as short-term borrowings until the entire proceeds have been received by the County at which time the repayment schedules are finalized and the amounts established as long-term debt.

**Self Insurance** – The County is self-insured for workers' compensation, health insurance, general liability and automobile liability. Estimates for accrued liability in each program at the end of the year have been recorded.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Compensated Absences** – The liability for compensated absences reported in the government-wide statement consists of unpaid accumulated vacation and sick leave balances. The liability is based on the sick leave and the vacation leave accumulated at June 30. Limited vacation and sick leave may be accumulated until retirement or termination. Accumulated sick leave is paid at a fixed daily rate and accumulated vacation is paid at the employee's current wage upon retirement or termination.

**Long-term Obligations** – Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental Statement of Net Assets in the government-wide financial statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight line amortization which approximates the effective interest method.

**Interfund Transactions** – On fund financial statements, receivables and payables resulting from interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the Statement of Net Assets. Flow of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds.

**Encumbrances** – The County uses encumbrance accounting, wherein purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve that portion of the applicable appropriation. Funding for all encumbrances lapses at year-end and reappropriation is required by the County Board of Supervisors with the exception of Capital Project Fund encumbrances.

**Net Assets** – Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation and related debt. Net assets are reported as restricted when there are limitations imposed on their use through the enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**Fund Balance** – Except for those required to comply with accounting standards, all reservations and designations of Governmental Fund balances reflect County Board of Supervisor's action in the context of adoption of the County's budget.

**Use of Estimates** – Management of the County has made a number of estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenditures, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

**(2) Property Taxes**

Property taxes are levied annually in April on assessed values as of January 1. In addition, personal property transactions during the year are taxed on a prorated basis. Real estate tax is payable in two equal installments on or before December 5 and June 5, and personal property tax is due on or before May 31, or within 30 days subsequent to assessment. After three years, real estate taxes become an enforceable lien on the property. Personal



**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

property taxes do not create a lien on property; however, County vehicle decals may not be issued to any individuals having outstanding personal property taxes. The County bills and collects both real estate and personal property taxes. The County recognizes tax revenue when levied to the extent that they are collected during the fiscal year and within 30 days after year-end.

The annual assessment for real estate is based on 100% of the assessed fair market value. A penalty of 10% of the unpaid tax is due for late payment. Interest is accrued at 10% for the initial year of delinquency, and thereafter at the maximum annual rate authorized by the Internal Revenue Code Section 6621 (b). The effective tax rates per \$100 of assessed value for the year ended June 30, 2005 were as follows:

Real Estate	\$1.12
Personal Property	3.50
Machinery and Tools	3.00

**(3) Fund Balances**

In the fund financial statements, fund balances of governmental funds have been classified to reflect the limitations and restrictions placed on the respective funds as follows:

Reserved Fund Balance

- *Inventories* – This amount represents inventories reported in the General Fund.
- *Encumbrances* – This amount reflects a reserve for goods and services encumbered, or ordered, prior to the end of the fiscal year, for which delivery of goods and services had not been made prior to the close of the fiscal year.

Unreserved Fund Balance

- *Fund Balances – Designated* – This amount represents tentative plans for financial resources in a future period or for capital projects.
- *Fund Balances – Undesignated* – This amount represents the remainder of the County's fund balances in governmental funds.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(4) Deposits and Investments**

As of June 30, 2005, the fair value and maturity of the County's total deposits and investments was as follows:

Investment Type	Fair Value	Investment Maturity		Credit Rating
		Less Than 1 year	1-2 year	
Demand and time deposits	\$ 13,727,022	\$ 13,640,001	\$ 87,021	N/A
Money market mutual funds	40,225,058	40,225,058	-	AAA <sub>m</sub>
Virginia LGIP	13,351,635	13,351,635	-	AAA <sub>m</sub>
Virginia SNAP fund	2,221,163	2,221,163	-	AAA <sub>m</sub>
Commercial paper	2,045,989	2,045,989	-	A-1+
Bankers acceptances	656,232	656,232	-	A-1+
Federal agency discount notes	36,914,171	36,914,171	-	A-1+
Federal agency bonds and notes	34,891,451	25,150,325	9,741,126	AAA
U.S. Treasury notes	807,440	807,440	-	AAA
	<u>\$ 144,840,161</u>	<u>\$ 135,012,014</u>	<u>\$ 9,828,147</u>	

Below is the carrying value for each entity who participated in the pooled cash of the County of Roanoke as of June 30, 2005:

Entity	Cash and Cash Equivalents	Cash and Investments with Fiscal Agents	Investments	Total
County of Roanoke	\$ 20,103,293	\$ 22,296,412	\$ 37,135,295	\$ 79,535,000
Agency Funds	26,949,379	-	14,027,942	40,977,321
Component Unit:				
Roanoke County Public Schools	13,257,186	-	8,425,430	21,682,616
Agency Funds	<u>2,645,224</u>	<u>-</u>	<u>-</u>	<u>2,645,224</u>
	<u>\$ 62,955,082</u>	<u>\$ 22,296,412</u>	<u>\$ 59,588,667</u>	<u>\$ 144,840,161</u>

**Credit Risk**

In accordance with the Code of Virginia and other applicable law, including regulations, the County's investment policy (the Policy) limits credit risk by restricting authorized investments to the following: bonds, notes and other direct obligations of the United States; bonds, notes, and other direct obligations of the State of Virginia or political subdivisions thereof; bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development and the Asian Development Bank; prime quality commercial paper; certificates of

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

deposits; bankers acceptances; repurchase agreements; and money market funds. The policy requires that commercial paper have a minimum Standard & Poor's (S&P) rating (or Moody's equivalent) of A-1 and requires certificates of deposits with savings and loan associations to pledge collateral equal to 100% of their public deposits, compared to 50% required by banks. All cash and investments of the County of Roanoke are covered by Federal deposit insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

The Policy establishes limitations on portfolio composition, both by investment type and by issuer, in order to control concentration of credit risk. The maximum percentage of the portfolio permitted in each eligible security with the limit to any one issuer is as follows:

U.S. Treasury Obligations	70%
U.S. Government Agency Securities and Instrumentalities of Government Sponsored Corporations	70%
Bankers Acceptance with no more than 25% with any one Institution and a maximum of 10% in any one issuance	40%
Repurchase Agreement Overnight with no more than 20% with any one Institution	70%
Repurchase Agreement Two or more nights with no more than 20% with any one Institution	25%
Certificate of Deposit with Commercial Banks with no more than 45% with any one institution	100%
Certificate of Deposit with Savings and Loan Associations with no more than \$100,000 with any one institution	10%
Commercial Paper with no more than 25% with any one institution and a maximum of 10% or \$1 million dollars in any one issuance	35%
Local Government Investment Pool with a maximum investment of no more than \$15 million	75%

As of June 30, 2005, the portion of the County and School System's portfolio, excluding the Virginia LGIP and U.S. Government guaranteed obligations, that exceed 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Federal Home Loan Mortgage Corporation	16.08%
Federal Home Loan Bank	15.95%
Federal National Mortgage Association	14.83%

**Custodial Credit Risk**

The Policy requires that all investment securities purchased by the County or held as collateral on deposits or investments shall be held by the County or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2005, all of the County's investments are held by the County or in a bank's trust department in the County's name.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Interest Rate Risk**

The Policy requires maturity scheduling be timed to anticipated need and scheduled to coincide with projected cash flow needs. All funds shall be considered short term except those reserved for capital projects and prepayment funds being held for debt retirement. As of June 30, 2005, the County had no investments with a maturity greater than 24 months.

**(5) Receivables**

Receivables at June 30, 2005 are as follows:

	Accounts	Taxes	Due from Other Governments	Total
Governmental activities:				
General	\$ 1,770,174	\$ 4,749,978	\$ 4,122,331	\$ 10,642,483
Capital projects	9,441	-	265,474	274,915
Internal service	14,456	-	-	14,456
Total governmental activities	<u>\$ 1,794,071</u>	<u>\$ 4,749,978</u>	<u>\$ 4,387,805</u>	<u>\$ 10,931,854</u>

**(6) Interfund Balances and Transfers**

Interfund balances at June 30, 2005 consisted of the following:

Receivable Fund	Payable Fund	Amount
Internal Service	Capital Projects	<u>\$ 1,932,830</u>

The balance of \$1,932,830 due to the Internal Service Fund from the Capital Projects Fund is the result of loans made for capital purchases. The balance not scheduled to be collected within the next year is \$1,118,227.

Interfund transfers for the year ended June 30, 2005 consisted of the following amounts:

Transfer To	Transfer Out		Total
	General	Capital Projects	
General fund	\$ -	\$ 32,267	\$ 32,267
Debt service fund	11,754,521	-	11,754,521
Capital projects fund	7,241,567	-	7,241,567
Internal service fund	483,782	-	483,782
Totals	<u>\$ 19,479,870</u>	<u>\$ 32,267</u>	<u>\$ 19,512,137</u>

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**(7) Payables**

Payables at the government-wide level at June 30, 2005 are as follows:

	Vendors	Accrued Wages and Benefits	Accrued Interest	Total
Governmental activities:				
General	\$ 2,308,187	\$ 1,432,522	\$ 2,112,765	\$ 5,853,474
Internal service	189,298	-	-	189,298
Capital projects	1,207,003	6,660	-	1,213,663
Total governmental activities	<u>\$ 3,704,488</u>	<u>\$ 1,439,182</u>	<u>\$ 2,112,765</u>	<u>\$ 7,256,435</u>



**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(8) Long-Term Liabilities**

The County's outstanding debt consists of General Obligation Bonds, Revenue Bonds, Virginia Public School Authority Bonds, Literary Loans and capitalized leases. The debt was issued to provide funds for the acquisition, construction and improvement of major capital facilities. The issuance of bonds by Virginia counties is not subject to any limitation on amount.

Outstanding long-term liabilities at June 30, 2005 are as follows:

	<b>Governmental Activities</b>
\$27,410,000 - 2003 General Obligation Refunding Bonds due in annual installments of \$700,000 to \$2,245,000 through June 1, 2021; interest at 2% to 4.5%	\$ 23,287,203
\$1,760,000 - 1992 Virginia Public School Authority Bonds (VPSA) due in annual installments of \$55,000 to \$90,000 through December 15, 2012; interest at 5.3% to 8.1%	595,000
\$2,310,000 - 1993 VPSA Bonds due in annual installments of \$10,000 to \$110,000 through December 15, 2013; interest at 4.5% to 5.0%	545,000
\$3,650,000 - 1994 Refunding Series A VPSA Bonds due in annual installments of \$85,000 to \$175,000 through December 15, 2007; interest at 6.9% to 7.0%	360,000
\$3,200,000 - 1994 Series B VPSA Bonds due in annual installments of \$160,000 through July 15, 2014; interest at 6.1% to 6.6%	1,600,000
\$10,100,000 - 1995 Series A VPSA Bonds due in annual installments of \$505,000 through July 15, 2015; interest at 5.4% to 6%	5,555,000
\$1,300,000 - 1996 Series B VPSA Bonds due in annual installments of \$65,000 through July 15, 2016; interest at 5.1% to 6.1%	780,000
\$7,965,000 - 1998 Series A VPSA Bonds due in annual installments of \$395,000 to \$400,000 through January 15, 2018; interest at 3.6% to 5.1%	5,565,000
\$4,724,924 - 1998 Series B VPSA Bonds due in annual installments of \$233,123 to \$248,659 through January 15, 2018; interest at 3.6% to 5.1%	3,330,197
\$6,920,000 - 1999 Series B VPSA Bonds due in annual installments of \$345,000 through July 15, 2019; interest at 5.1% to 6.1%	5,175,000
\$16,500,000 - 2001 Series A VPSA Bonds due in annual installments of \$825,000 through July 15, 2021; interest at 4.1% to 5.6%	14,243,638
\$12,968,814 - 2001 Series B VPSA Bonds due in annual installments of \$630,029 to \$683,564 through July 15, 2021; interest at 3.1% to 5.1%	11,062,234
\$20,630,000 - 2003 Series C VPSA Bonds due in annual installments of \$1,030,000 to \$1,035,000 through July 15, 2023; interest at 5.1% to 5.35%	20,897,203
\$467,904 - State Literary Loan: Cave Spring H. S. due in annual installments of \$23,400 through July 15, 2006; interest at 3.0%	46,800
\$561,000 - State Literary Loan: Wm. Byrd H. S. due in annual installments of \$28,050 through February 1, 2008; interest at 3.0%	84,150

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

	<u>Governmental Activities</u>
\$547,839 - State Literary Loan: Northside H. S. due in annual installments of \$27,500 through February 1, 2008; interest of 3.0%	\$ 82,500
\$538,000 - State Literary Loan: Glenvar H. S. due in annual installments of \$26,900 through February 1, 2008; interest at 3.0%	80,700
\$111,076 - State Literary Loan: Northside H. S. due in annual installments of \$5,600 through April 1, 2008; interest at 3.0%	16,800
\$588,344 - State Literary Loan: Northside H. S. due in annual installments of \$30,000 through April 1, 2008; interest at 3.0%	90,000
\$1,835,459 - State Literary Loan: Fort Lewis Elementary due in annual installments of \$87,459 to \$92,000 through January 1, 2019; interest at 3.0%	1,283,459
\$3,297,989 - State Literary Loan: William Byrd H. S. due in annual installments of \$163,198 to \$164,989 through April 30, 2019; interest at 3.0%	2,308,055
\$500,000 - State Literary Loan: Glenvar H. S. due in annual installments of \$25,000 through January 15, 2009; interest at 3.0%	100,000
\$285,500 - State Literary Loan: Masons Cove Elementary due in annual installments of \$14,275 through January 15, 2009; interest at 3.0%	57,100
\$322,427 - State Literary Loan: Glenvar Elementary due in annual installments of \$8,927 to \$16,500 through January 15, 2009; interest at 3.0%	58,427
\$135,136 - State Literary Loan: Glenvar H. S. due in annual installments of \$5,936 to \$6,800 through May 15, 2009; interest at 3.0%	26,336
\$1,229,403 - State Literary Loan: Cave Spring H. S. due in annual installments of \$59,953 to \$61,550 through June 15, 2009; interest at 3.0%	244,603
\$369,137 - State Literary Loan: Cave Spring Elementary due in annual installments of \$8,137 to \$19,000 through June 15, 2009; interest at 3.0%	65,137
\$2,000,000 - State Literary Loan: William Byrd J.H. due in annual installments of \$100,000 through March 15, 2009; interest at 3.0%	400,000
\$333,833 - State Literary Loan: Glenvar Elementary due in annual installments of \$10,833 to \$17,000 through July 15, 2009; interest at 4.0%	78,833

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

	<b>Governmental Activities</b>
\$12,831 - State Literary Loan: Mason Cove Elementary due in annual installments of \$640 to \$671 through August 15, 2009; interest at 3.0%	\$ 3,231
\$1,500,000 - State Literary Loan: Northside High due in annual installments of \$75,000 through September 15, 2017; interest at 3.0%	975,000
\$2,316,571 - State Literary Loan: Cave Spring J.H. due in annual installments of \$115,828 to \$115,839 through April 15, 2020; interest at 3.0%	1,737,431
\$22,170,000 - 2004A Virginia Resources Authority (VRA) lease revenue bond due in annual installments of \$385,000 to start October 1, 2005 to \$1,410,000 through October 1, 2033; interest at 2.9% to 5.1%.	22,158,915
\$2,650,000 - IDA lease revenue bond due in monthly installments of \$12,807 to \$20,334 through June 15, 2016; interest at 5.39% to 6.32%	2,096,133
\$2,705,000 - IDA lease revenue refunding bond due in annual installments of \$230,000 to \$290,000 through April 2013; interest at 3.46%	2,026,823
	<u>\$ 127,015,908</u>
Accrued compensated absences	2,861,940
Accrued landfill closure and post-closure	100,000
Claims payable	1,808,651
	<u><u>\$ 131,786,499</u></u>



**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Changes in long-term liabilities for the year ended June 30, 2005 were as follows:

	Outstanding June 30, 2004 As Restated	Additions	Deletions	Outstanding June 30, 2005	Amounts Due Within One Year
<b>Primary Government</b>					
Governmental Activities:					
General Obligation Bonds	\$ 25,716,449	\$ -	\$ 2,429,246	\$ 23,287,203	\$ 2,085,000
Lease Revenue Bonds	26,703,265	-	421,394	26,281,871	773,210
VPSA School Bonds	74,499,309	-	4,791,037	69,708,272	4,573,152
State literary loans	8,622,594	-	884,032	7,738,562	850,032
Capitalized lease obligations	372,109	-	372,109	-	-
	135,913,726	-	8,897,818	127,015,908	8,281,394
Accrued compensated absences	2,764,876	1,877,114	1,780,050	2,861,940	1,273,604
Accrued landfill closure and post-closure	150,000	-	50,000	100,000	50,000
Claims payable	1,696,130	4,894,854	4,782,333	1,808,651	1,073,080
	<u>\$ 140,524,732</u>	<u>\$ 6,771,968</u>	<u>\$ 15,510,201</u>	<u>\$ 131,786,499</u>	<u>\$ 10,678,078</u>
 <b>Component Unit</b>					
School Board					
Accrued compensated absences	\$ 2,784,788	\$ 1,616,252	\$ 1,680,599	\$ 2,720,441	\$ 625,419
Claims payable	1,729,901	10,673,010	10,659,507	1,743,404	1,638,809
	<u>\$ 4,514,689</u>	<u>\$ 12,289,262</u>	<u>\$ 12,340,106</u>	<u>\$ 4,463,845</u>	<u>\$ 2,264,228</u>

The Debt Service Fund is used to liquidate most long-term liabilities of governmental activities as shown above. However, a portion of compensated absences is liquidated by the General fund.

Effective June 30, 2004, all of the County's Business-Type Activity debt was transferred to the Western Virginia Water Authority with the exception of \$1,835,031 in General Obligation Bonds which were transferred to the General Fund. See note 17 for discussion of the restatement related to the transfer.

**COUNTY OF ROANOKE, VIRGINIA**  
**Governmental Activities**

The annual requirements to amortize governmental activity debt outstanding as of June 30, 2005 are as follows:

Fiscal Year	General Obligation Serial Bonds		Virginia Public School Authority Bonds		Literary Loans		Lease Revenue Bonds		Total Governmental Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 2,106,841	\$ 842,440	\$ 4,654,550	\$ 3,412,086	\$ 850,032	\$ 232,945	\$ 769,817	\$ 1,248,936	\$ 8,381,240	\$ 5,736,407
2007	2,146,841	800,740	4,563,001	3,182,836	850,032	207,274	795,111	1,219,127	8,354,985	5,409,977
2008	2,216,841	732,540	4,531,386	2,957,653	826,632	181,603	831,074	1,187,177	8,405,933	5,058,973
2009	2,266,841	677,665	4,433,717	2,730,275	687,685	156,634	840,013	1,153,797	8,228,256	4,718,371
2010	1,916,841	610,315	4,422,251	2,501,978	459,321	135,834	879,041	1,119,567	7,677,454	4,367,694
2011-2015	7,651,741	1,855,044	21,720,684	9,127,820	2,239,085	475,384	4,349,091	5,015,267	35,960,601	16,473,515
2016-2020	4,056,880	729,970	17,946,212	3,897,692	1,825,775	141,962	3,351,134	4,125,209	27,180,001	8,894,833
2021-2025	924,377	40,687	7,436,471	567,265	-	-	4,030,078	3,217,229	12,390,926	3,825,181
2026-2030	-	-	-	-	-	-	5,203,089	2,041,074	5,203,089	2,041,074
2031-2035	-	-	-	-	-	-	5,233,423	555,003	5,233,423	555,003
Total	\$ 23,287,203	\$ 6,289,401	\$ 69,708,272	\$ 28,377,605	\$ 7,738,562	\$ 1,531,636	\$ 26,281,871	\$ 20,882,386	\$ 127,015,908	\$ 57,081,028

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(9) Capital Assets**

In accordance with the implementation of GASB Statement Number 34, all school related debt is reported in the Comprehensive Annual Financial Report (CAFR) of the Primary Government as the County is legally responsible for debt repayment. All capital assets related to this debt which have tenancy in common have been reported in the County CAFR.

Bondholders of the lease revenue bonds have a security leasehold interest in the underlying assets purchased with the proceeds of those bonds until the bonds are paid off or refinanced.

As of June 30, 2005, the Primary Government capital assets include \$98,984,910, net of accumulated depreciation, of Roanoke County Public School Component Unit capital assets used for educational purposes which have tenancy in common.

Primary governmental capital asset activity for the year ended June 30, 2005 was as follows:

**Governmental Activities**

	June 30, 2004 As Restated *	Additions	Reductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 10,084,962	\$ -	\$ -	\$ 10,084,962
Construction in progress	15,468,231	13,847,826	(22,056,487)	7,259,570
Total capital assets at historical cost not being depreciated	25,553,193	13,847,826	(22,056,487)	17,344,532
Capital assets being depreciated:				
Building and improvements	117,020,311	23,640,507	-	140,660,818
Furniture, fixtures, and equipment	29,265,070	1,902,963	(459,834)	30,708,199
Total capital assets at historical cost being depreciated	146,285,381	25,543,470	(459,834)	171,369,017
Less accumulated depreciation:				
Buildings and improvements	(24,182,053)	(3,608,714)	-	(27,790,767)
Furniture, fixtures, and equipment	(21,540,372)	(1,909,781)	459,834	(22,990,319)
Total accumulated depreciation	(45,722,425)	(5,518,495)	459,834	(50,781,086)
Total capital assets, being depreciated, net	100,562,956	20,024,975	-	120,587,931
Governmental activities capital assets, net	\$ 126,116,149	\$ 33,872,801	\$ (22,056,487)	\$ 137,932,463

\* See note 17 regarding restatement of capital assets as of June 30, 2004.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Depreciation expense for the year ended June 30, 2005 was charged to functions/programs of the Primary Government as follows:

Governmental Activities:

General government	\$ 177,752
Judicial administration	44,875
Public safety	1,925,986
Public works	538,401
Health and welfare	156,407
Parks, recreational and cultural	443,346
Library	229,363
Community development	25,867
Education	1,976,498
Total depreciation expense - governmental activities	<u>\$ 5,518,495</u>

Component unit's capital asset activity for the year ended June 30, 2005 was as follows:

	Balance June 30, 2004	Additions	Reductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 5,137,412	\$ 373,150	\$ -	\$ 5,510,562
Construction in progress	2,259,889	1,540,446	(315,258)	3,485,077
Total capital assets at historical cost not being depreciated	<u>7,397,301</u>	<u>1,913,596</u>	<u>(315,258)</u>	<u>8,995,639</u>
Capital assets being depreciated:				
Building and improvements	47,953,912	286,270	-	48,240,182
Furniture, fixtures and equipment	14,519,486	1,607,389	(534,082)	15,592,793
Total capital assets at historical cost being depreciated	<u>62,473,398</u>	<u>1,893,659</u>	<u>(534,082)</u>	<u>63,832,975</u>
Less accumulated depreciation:				
Buildings and improvements	(29,514,703)	(1,016,639)	-	(30,531,342)
Furniture, fixtures and equipment	(9,088,536)	(1,155,921)	534,082	(9,710,375)
Total accumulated depreciation	<u>(38,603,239)</u>	<u>(2,172,560)</u>	<u>534,082</u>	<u>(40,241,717)</u>
Total capital assets, being depreciated, net	<u>23,870,159</u>	<u>(278,901)</u>	<u>-</u>	<u>23,591,258</u>
Component unit capital assets, net	<u>\$ 31,267,460</u>	<u>\$ 1,634,695</u>	<u>\$ (315,258)</u>	<u>\$ 32,586,897</u>

Capital outlays are reported as expenditures in the governmental funds; however, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. The adjustment from governmental funds to the government-wide statements for the year ended June 30, 2005 is summarized as follows:

Capital outlay	\$ 17,334,809
Depreciation expense	(5,518,495)
Total adjustment	<u>\$ 11,816,314</u>

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(10) Risk Management**

The County of Roanoke is self-insured for workers' compensation, health insurance, general liability and automobile liability as follows:

*Workers' Compensation* – The County established a self-insured Workers' Compensation program July 1, 1986. On July 1, 1990, the School System also implemented a self-insured Workers' Compensation program. Premiums are paid into the Internal Service Fund and the Component Unit Internal Service Fund by all other funds and are available to pay claims, claims reserves and administrative costs of the programs. An excess coverage insurance policy covers each accident in excess of \$250,000 for the County and \$250,000 for the School System, with limits of \$5,000,000 per occurrence. At June 30, 2005, the County and the School System have accrued liabilities of \$998,789 and \$149,421, respectively, based primarily upon an estimate by a qualified claims adjuster with a third party administrator. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as quasi-external interfund transactions.

*Health Insurance* – The County established a self-insured health insurance program July 1, 1988. On July 1, 1990, the School System also implemented a self-insured health insurance program. Monthly contributions are paid into the Internal Service fund and the Component Unit Internal Service fund from the County and School System funds and the County and School System employees based upon estimates from the claims processor that should cover administrative expenses, stop loss insurance premiums, and claims. An excess coverage insurance policy covers each individual's pooled claims in excess of \$150,000. At June 30, 2005, incurred but not yet reported claims for the County and School System are estimated to be \$757,835 and \$1,593,983, respectively. Interfund premiums are based upon the employees within that fund that are enrolled in the plan.

*General Liability and Automobile Liability* – The County established a self-insured program for general liability and automobile insurance July 1, 1994. The County purchased excess insurance with a \$250,000 retention, with limits of \$5,000,000 per occurrence, and no aggregate limit. At June 30, 2005, the County has no general liability and an accrued liability of \$52,027 for automobile liability.

Settled claims have not exceeded insurance coverage for the past three years. Unpaid claims are included as accrued liabilities on the balance sheet. Changes in the balances of claims liabilities during the past two years for the primary government and the component unit are as follows:

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Primary Government:**

	<u>Workers'</u> <u>Compensation</u>	<u>Health</u> <u>Insurance</u>	<u>General</u> <u>Liability</u>	<u>Automobile</u> <u>Liability</u>	<u>Total</u>
Unpaid Claims June 30, 2003	\$ 1,056,047	\$ 788,672	\$ 260	\$ 45,000	\$ 1,889,979
Inurred claims (including IBNR and changes in estimates)	324,523	4,382,985	8,549	-	4,716,057
Claim payments	<u>(510,142)</u>	<u>(4,351,505)</u>	<u>(8,509)</u>	<u>(39,750)</u>	<u>(4,909,906)</u>
Unpaid Claims June 30, 2004	\$ 870,428	\$ 820,152	\$ 300	\$ 5,250	\$ 1,696,130
Inurred claims (including IBNR and changes in estimates)	692,850	4,155,229	(2)	46,777	4,894,854
Claim payments	<u>(564,489)</u>	<u>(4,217,546)</u>	<u>(298)</u>	<u>-</u>	<u>(4,782,333)</u>
Unpaid Claims June 30, 2005	<u>\$ 998,789</u>	<u>\$ 757,835</u>	<u>\$ -</u>	<u>\$ 52,027</u>	<u>\$ 1,808,651</u>

**School System Component Unit:**

	<u>Workers'</u> <u>Compensation</u>	<u>Technology</u> <u>Reserve</u>	<u>Health</u> <u>Insurance</u>	<u>Total</u>
Unpaid Claims June 30, 2003	\$ 133,406	\$ -	\$ 1,546,616	\$ 1,680,022
Inurred claims (including IBNR and changes in estimates)	336,305	31,065	10,066,088	10,433,458
Claim payments	<u>(328,653)</u>	<u>(31,065)</u>	<u>(10,023,861)</u>	<u>(10,383,579)</u>
Unpaid Claims June 30, 2004	\$ 141,058	\$ -	\$ 1,588,843	\$ 1,729,901
Inurred claims (including IBNR and changes in estimates)	278,402	176,724	10,217,884	10,673,010
Claim payments	<u>(270,039)</u>	<u>(176,724)</u>	<u>(10,212,744)</u>	<u>(10,659,507)</u>
Unpaid Claims June 30, 2005	<u>\$ 149,421</u>	<u>\$ -</u>	<u>\$ 1,593,983</u>	<u>\$ 1,743,404</u>

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(11) Defined Benefit Pension Plan**

**A. Plan Description**

The County of Roanoke contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (System). In addition, professional and non-professional employees of the Roanoke County Public Schools are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the agent multiple-employer retirement system. All full time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating law enforcement officers and firefighters) and at age 50 with 30 years of service for participating employees (age 50 with 25 years for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in their second year of retirement. The COLA is limited to 5% per year. AFC is defined as the highest consecutive 36 months of reported compensation. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the employer. In addition, the County and the Roanoke County Public Schools are required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The County and the Roanoke County Public Schools' contribution rates for the fiscal year ended June 30, 2005 were 13.5% and 11.58% of annual covered payroll, respectively (including the employee share of 5% paid by the employer). For the three years ended June 30, 2005, 2004, and 2003, total employer and employee contributions made to the VRS statewide teacher pool for professional employees by the Roanoke County Public Schools were \$7,850,746, \$6,041,093, and \$5,827,658, respectively, and represented 11.73%, 9.44% and 9.44%, respectively, of annual covered payroll.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**C. Annual Pension Cost**

For fiscal year 2005, the County's and School's annual pension cost of \$1,188,927 and \$89,974, respectively, was equal to the required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases ranging from 4.25 to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the County and the Roanoke County Public Schools' assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County and the Roanoke County Public Schools' unfunded actuarial liabilities are being amortized as a level percentage of payroll on an open basis within a period of 30 years or less.

**Trend Information for the County of Roanoke**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 1,188,927	100.0%	\$ -
June 30, 2004	1,682,507	100.0%	-
June 30, 2003	1,465,630	100.0%	-

**Trend Information for the Roanoke County Public Schools**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 89,974	100.0%	\$ -
June 30, 2004	59,984	100.0%	-
June 30, 2003	42,066	100.0%	-



**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(12) Unearned Revenue**

Unearned revenue represents amounts for which asset recognition criteria have been met but for which revenue recognition criteria have not been met. Unearned revenue in the fund financial statements as of June 30, 2005 is comprised of the following:

	General Fund	Internal Service Funds Health	Dental
Property tax	\$ 5,283,757	\$ -	\$ -
Other local tax	228,620	-	-
Sales tax	761,920	-	-
Insurance withholdings	-	418,393	30,174
Grant revenue	122,334	-	-
Total	<u>\$ 6,396,631</u>	<u>\$ 418,393</u>	<u>\$ 30,174</u>

Unearned revenue in the government-wide statements as of June 30, 2005 is comprised of the following:

	Governmental Activities	Component Unit
Property tax	\$ 5,283,757	\$ -
Insurance withholdings	448,567	1,150,434
Grant revenue	122,335	119,155
Total	<u>\$ 5,854,659</u>	<u>\$ 1,269,589</u>

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(13) Commitments, Contingencies, and Other Information**

*Grant Programs* – Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement of the grantor agencies. County management believes disallowances, if any, would not be material to the financial position of the County at June 30, 2005.

*Other Contingencies* – The County discontinued collections of solid waste at its Dixie Caverns Landfill in 1975. The subsequent discovery of leakage of hazardous waste has caused extensive remedial and removal expenses that have been coordinated with and approved by the United States Environmental Protection Agency (EPA). The County closed this landfill during the 1997-98 fiscal year. The EPA has approved the closure and monitoring of the landfill. As part of the agreement with the EPA, the County has three remaining years of post closure monitoring which will include field inspection and leachate removal. Post closure care is estimated to be \$100,000 for this time period and will be funded on an annual basis through the County budget process.

The County owns and/or rents several sites around the Roanoke Valley for the purpose of maintaining towers and antennae for its public safety radio communications system. The County renewed a lease with the owner of the Tinker Mountain site on July 1, 2005 for a one year term at \$3,400 per year. A new lease was signed effective March 1, 2005 for a site on Twelve O'Clock Knob in the amount of \$8,664 per year. The initial term of the lease is through 2016 and the cost escalates based on the Consumer Price Index with an option to renew through 2026.

**(14) Post-Employment Benefits**

In addition to the pension benefits described in Note 12, the Roanoke County Public School System provides post-employment health care benefits to all employees who retire from the School System after age 55 with at least 10 years of service and 12 months enrollment in the School System's group health plan. The County provides post-employment health care benefits to all employees who retire from the County under the Virginia Retirement System. Currently, 258 School System retirees and 160 County retirees meet these eligibility requirements. The School System contributed an annual maximum of \$2,500 per retiree for post-employment health insurance for up to five years. The County contributed up to \$6,213 per year for subscriber, subscriber plus minor, or family coverage towards the total premium for each eligible retiree. Expenditures for post-employment health care benefits are recognized on a pay-as-you-go monthly basis as the employee premium becomes due. During the year ended June 30, 2005, expenditures of \$512,424 and \$658,206 were recognized for post-employment health care for School System and County retirees, respectively.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(15) Jointly Governed Organizations**

The following entities are considered to be jointly governed. The County has no ongoing financial responsibility or interest in jointly governed organizations.

Roanoke Valley Regional Board

The County, the City of Roanoke, the City of Salem, Botetourt County, Franklin County, and Craig County jointly participate in the regional education program for severely handicapped students, operated by the Roanoke Valley Regional Board (RVRB). RVRB is composed of six members, one from each participating locality. The County of Roanoke has control over budget and financing of the program only to the extent of representation by RVRB members appointed. Each locality's financial obligation is based on the proportionate share of students attending the regional program.

For the year ended June 30, 2005, the Roanoke County Public School System, a component unit of the County of Roanoke, remitted \$1,598,970 to RVRB for services. Year-end deficits are recovered in the following year's rates. This entity is intended to be self-supporting.

Roanoke Valley Resource Authority

The Roanoke Valley Resource Authority (RVRA) was established on October 23, 1991 under a user agreement between the County of Roanoke, City of Roanoke, and the Town of Vinton to develop a regional solid waste disposal facility. The old regional sanitary landfill operated by the Roanoke Valley Regional Solid Waste Management Board was closed on September 30, 1993. RVRA is presently governed by a seven member board appointed by the governing bodies of the Charter Members. The County has control over the budget and financing of RVRA only to the extent of representation by board members appointed. For the fiscal year ended June 30, 2005, the County remitted approximately \$1,979,433 to RVRA for services. Participating localities are responsible for their pro-rata share, based on population, of any year-end deficit. RVRA is currently self-supporting and is expected to remain as such in the future. The County is the fiscal agent for RVRA and reports its assets and liabilities in an agency fund.

Roanoke Regional Airport Commission

The Roanoke Regional Airport Commission (the Commission) was established on July 1, 1987 by legislative act of the Commonwealth of Virginia to own and operate the Roanoke Regional Airport. The Commission is composed of five members. Two members are appointed by the Roanoke County Board of Supervisors and three by Roanoke City Council. The County and the City are each responsible for their pro rata share, based on population, of any year-end operating deficit or capital expenditures if any additional funding is required. The Commission is responsible for paying all outstanding debt. No subsidy has been required since inception.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Roanoke Valley Detention Commission

The Counties of Botetourt, Craig, and Roanoke, and the Cities of Roanoke and Salem formed the Roanoke Valley Detention Commission (RVDC) to renovate, expand, and operate a detention facility for juveniles. RVDC is governed by a six member board. Each locality's financial obligation is based on the number of juveniles housed at the facility. RVDC has the authority to issue debt and such debt is the responsibility of RVDC.

Blue Ridge Behavioral Healthcare

The Counties of Botetourt, Craig, and Roanoke, and the Cities of Roanoke and Salem formed Blue Ridge Community Services (Blue Ridge) to provide a system of comprehensive community mental health, mental retardation, and substance abuse services. Blue Ridge is governed by a sixteen member board. Each locality's financial obligation is based on the type and amount of services performed for individuals in the locality.

Fifth Planning District Disability Services Board

The Counties of Allegheny, Botetourt, Craig, and Roanoke, the Town of Vinton, and the Cities of Roanoke, Salem, Covington, and Clifton Forge jointly participate in the Fifth Planning District Disability Services Board (the Board). The Board provides input to state and local agencies on service needs and priorities of persons with physical and sensory disabilities.

Roanoke Valley Society for the Prevention of Cruelty to Animals

The Counties of Roanoke and Botetourt, Town of Vinton and City of Roanoke jointly participate on the Advisory Board which is responsible for the general fiscal and management policy for the Roanoke Valley Society for the Prevention of Cruelty to Animals (RVSPCA). The center is owned and operated by the RVSPCA. Participating localities are responsible for their pro-rata share, based on their use percentage, of any fiscal year-end deficit.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(16) Related Organizations**

The Industrial Development Authority (the Authority) of Roanoke County, Virginia was created in 1971. The Authority is authorized to acquire, own, lease and dispose of local properties which will potentially promote industry and develop trade in Virginia through locating and remaining in the area. The Authority assists new and expanding businesses in securing low interest, tax-exempt industrial development revenue bonds. Bonds are issued when financing these facilities, covering the cost of land, buildings, machinery or equipment. A mortgage or lien on the financed property is then secured and repaid from the revenue of the project. The Authority is governed by a seven member board appointed by the Roanoke County Board of Supervisors. The County of Roanoke has no financial responsibility for the debt issued by the Authority.

The Western Virginia Water Authority (WVWA) was created by the County and the City of Roanoke on July 1, 2004. The WVWA is a full service authority that provides water and wastewater treatment to both County and City citizens. The WVWA is governed by a 7 member board of which 2 will be appointed by the Roanoke County Board of Supervisors. The County of Roanoke has no financial responsibility for the debt issued by the WVWA. The County retained \$1,835,031 of General Obligation Bonds when the assets and liabilities of the County water and wastewater utilities were transferred to the WVWA. The WVWA is responsible for reimbursing the County in the form of locality compensation payments for this amount of which \$414,188, which includes interest, was received for the year ended June 30, 2005, with the remaining balance of \$1,495,000 recorded as a restricted receivable in the Statement of Net Assets (Exhibit I) of the basic financial statements.

**(17) Restatement**

On July 1, 2004, the County and the City of Roanoke (City) formed the Western Virginia Water Authority (WVWA), a regional water and wastewater authority. This full service authority will serve both County and City citizens ensuring the most reliable means of providing water and wastewater treatment, at the lowest cost and best rate and service for its customers. As outlined in the terms of an Operating Agreement dated June 30, 2004, the assets and liabilities of the County and City water and wastewater utilities were merged into one full service authority created pursuant to the Virginia Water and Waste Authorities Act, Title 15.2, Chapter 51 to be responsible for the supply, treatment, distribution, and transmission of water and the collection and treatment of wastewater.

Also pursuant to the Operating Agreement, and pursuant to the terms of an Assumption Agreement dated as of July 1, 2004, among the County, City, WVWA, and the Virginia Resources Authority, the WVWA assumed certain liabilities of the County and the City representing obligations secured by revenues related to the respective drinking water and wastewater utilities, and agreed to pay to the County and the City amounts equal to debt service due on the localities' liabilities not legally assumed by the WVWA. The County's obligations not assumed by the WVWA include the County's general obligation debt issued by the County for its Water and Wastewater Enterprise functions. The WVWA has agreed to pay the County amounts equal to debt service on this general obligation debt. The WVWA has covenanted under the Operating Agreement to fix, charge, and collect rates, fees and charges sufficient to pay expenses of the WVWA and pay debt service on assumed obligations and the County's affected general obligations.

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

As a result of the formation of the WVWA on July 1, 2004, the County transferred total assets of \$144,961,018, which is net of \$160,000 of capital assets retained by the County, and total liabilities of \$73,299,795, which is net of \$1,835,031 of General Obligation Bonds retained by the County, as of June 30, 2004 which is considered a change in reporting entity in order for the financial statements to be comparative on a consistent basis.

The following tables present the reclassification and adjustment of balances to the Governmental Activities in order to restate the June 30, 2004 balances:

**Reclassification of net assets as originally reported as of June 30, 2004:**

Net Assets at June 30, 2004, as originally reported	\$ 73,565,196
Capital assets transferred from Water and Sewer Funds	<u>160,000</u>
Total Net Assets at June 30, 2004, as adjusted (Exhibit II)	<u><u>\$ 73,725,196</u></u>

**Reclassification of debt as originally reported as of June 30, 2004:**

	<u>As Originally Reported June 30, 2004</u>	<u>Transfers to WVWA</u>	<u>Interfund Transfers</u>	<u>As Adjusted June 30, 2004</u>
Governmental Activities:				
General Obligation Bonds	<u>\$ 23,881,418</u>	<u>\$ -</u>	<u>\$ 1,835,031</u>	<u>\$ 25,716,449</u>
Business-Type Activities:				
General Obligation Bonds	\$ 1,835,031	\$ -	\$ (1,835,031)	\$ -
Revenue Bonds Water	4,124,532	4,124,532	-	-
VRA Revolving Water & Sewer	<u>61,803,555</u>	<u>61,803,555</u>	<u>-</u>	<u>-</u>
	67,763,118	65,928,087	(1,835,031)	-
Accrued compensated absences	<u>255,509</u>	<u>255,509</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 68,018,627</u></u>	<u><u>\$ 66,183,596</u></u>	<u><u>\$ (1,835,031)</u></u>	<u><u>\$ -</u></u>

**COUNTY OF ROANOKE, VIRGINIA**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Reclassification of capital assets as originally reported as of June 30, 2004:**

	<u>As Originally Reported June 30, 2004</u>	<u>Transfers to WWVA</u>	<u>Interfund Transfers</u>	<u>As Adjusted June 30, 2004</u>
Governmental Activities:				
Land	\$ 9,924,962	\$ -	\$ 160,000	\$ 10,084,962
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 1,035,741	\$ 875,741	\$ (160,000)	\$ -
Construction in progress	25,552,949	25,552,949	-	-
Total capital assets at historical cost not being depreciated	26,588,690	26,428,690	(160,000)	-
Capital assets being depreciated:				
Buildings and systems	137,967,552	137,967,552	-	-
Furniture, fixtures, and equipment	3,366,366	3,366,366	-	-
Total capital assets at historical cost being depreciated	141,333,918	141,333,918	-	-
Less accumulated depreciation:				
Buildings and systems	(38,661,878)	(38,661,878)	-	-
Furniture, fixtures, and equipment	(2,827,707)	(2,827,707)	-	-
Total accumulated depreciation	(41,489,585)	(41,489,585)	-	-
Total capital assets, being depreciated, net	99,844,333	99,844,333	-	-
Business-type activities capital assets, net	\$ 126,433,023	\$126,273,023	\$ (160,000)	\$ -